

Message Text

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ACTION EUR-25

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INFO AMEMBASSY BRUSSELS

AMEMBASSY LUXEMBOURG

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TAGS: ECON, OECD, BE, LU

SUBJECT: EDRC REVIEW OF B. L. E. U. ECONOMY

REF: USOECD 17060

1. SUMMARY: BELGIAN AND LUXEMBOURG DELS VIEWED SECRETARIAT DRAFT ECONOMIC SURVEY AS EXCELLENT AND ASKED THAT ONLY SMALL CHANGES BE MADE. END SUMMARY.

2. BLEU DELEGATION, LED BY POLAK (BELGIUM) AND KIRSCH (LUXEMBOURG) FOUND SECRETARIAT DRAFT ECONOMIC SURVEY (EDR (73)14) EXCELLENT, WELL BALANCED, AND HAD NO MAJOR CHANGES TO PROPOSE. BELGIANS, HOWEVER, REJECTED AS POLITICALLY IMPOSSIBLE SECRETARIAT'S VIEW THAT INCOMES POLICY MIGHT BE USEFUL IN ANTI- INFLATION FIGHT. THEY ALSO DISAGREED WITH SECRETARIAT'S VIEW THAT HIGH CURRENT ACCOUNT SURPLUS OF MORE OR LESS STRUCTURAL NATURE IMPLIED NEED FOR REVALUATION. BELGIANS EXPECTED

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CA SURPLUS TO DECLINE FROM 4 PER CENT GNP IN 1973 TO 3 PER CENT IN 1974, AND TO BE OFFSET BY CAPITAL OUTFLOWS. LUXEMBOURG REP HAD ONLY MINOR DRAFTING PROBLEMS WITH SECTION ON LUXEMBOURG ECONOMY.

3. BELGIANS EXPECTED GNP GROWTH RATE BE 5.4 PER CENT IN 1973 AND TO SLOW DOWN TO 5 PER CENT IN 1974. PRICES WOULD PROBABLY CONTINUE TO REMAIN CLOSE TO OR LITTLE LESS THAN RATES IN NEIGHBORING COUNTRIES. RATE UNEMPLOYMENT WAS HIGHER THAN EXPECTED, DUE PARTLY TO COST PUSH INSPIRED INVESTMENT AND TO STRUCTURAL CHANGES IN ECONOMY. ECONOMY NEVERTHELESS EXPECTED REACH TARGET 50,000 UNEMPLOYED IN TWO YEARS. WAGES WERE EXPECTED RISE 15.1 PER CENT IN 1973 VS. 14.1 PER CENT IN 1972. MONETARY POLICY HAD SHIFTED TO " MODERATELY RESTRICTIVE" STANCE, AND BUDGETARY POLICY HAD BEEN TIGHTENED. BELGIAN DEL NOTED CONSUMER PRICE INDEX BEING REVISED TO TAKE ACCOUNT NEW PATTERN CONSUMPTION , AND NEW INDEX WOULD BE INTRODUCED IN 1975.

4. BELGIAN DELS SAID CURRENT ACCOUNT SURPLUS WAS RELATED IN PART TO WELL- KNOWN PERVERSE EFFECTS OF EXCHANGE RATE ADJUSTMENTS, TO EXPORT ORIENTED FOREIGN INVESTMENT (90 PER CENT OR MORE PRODUCTION GOES INTO EXPORTS), TO BOONING ECONOMIES OF NEIGHBORS, WHICH TAKE OVER 60 PER CENT BELGIAN EXPORTS, AND TO FAVORABLE COST- PRICE DEVELOPMENTS IN BLEU. BELGIAN DELS ARGUED THAT CURRENT ACCOUNT SURPLUS WILL LIKELY DECLINE FROM PRESENT 4 PER CENT GNP, TO 3 PER CENT IN 1974 AND FURTHER OVER NEXT FEW YEARS AS EFFECTS ECHANGE RATE ADJUSTMENT WORK THROUGH. THE CA SURPLUS WOULD BE OFFSET IN ANY CASE BY CAPITAL OUTFLOWS. THEY STRESSED PRESENT INTERNATIONAL SITUATION WAS HIGHLY UNCERTAIN. THEREFORE, IT WOULD BE EXTREMELY RISKY TO REVALUE FURTHER. BLEU LONG TERM BALANCE PAYMENTS AIM WAS TO HAVE CA SURPLUS OF ONE PER CENT GNP OFFSET BY CAPITAL OUTFLOW.
BROWN

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